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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

KOREA - SECOND FEASIBILITY STUDIES LOAN

489-H-083

AID-DLC/P-995

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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

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AID-DLC/P-995

November 3, 1971

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Korea - Second Feasibility Studies Loan

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$2,000,000 to the Government of the Republic of Korea to assist in financing the foreign exchange costs of services, equipment, and materials necessary for the performance of economic and technical prefeasibility and feasibility studies, sectoral studies, market studies and other capital project-related activities in Korea.

Please advise us as early as possible but in no event later than close of business on Wednesday, November 10, 1971, if you have a basic policy issue arising out of this proposal.

Rachel R. Agee  
Secretary  
Development Loan Committee

Attachments:

Summary and Recommendations  
Project Analysis  
ANNEXES A-F

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November 3, 1971

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November 3, 1971

SUMMARY AND RECOMMENDATION

1. Borrower: The Government of the Republic of Korea (ROKG).  
Implementing Agency: The Economic Planning Board (EPB) of the ROKG.
2. Amount: Not to exceed \$2 million.
3. Terms: Principal to be repaid over a period of 40 years, including a 10-year grace period; interest to be repaid semi-annually, beginning six months after the first disbursement under the loan at the rate of 2% per annum during the grace period, and 3% per annum thereafter.
4. Description of Activity to be Financed: Proceeds of the loan will be used to finance the foreign exchange costs of prefeasibility and feasibility studies, sectoral studies, market studies and consulting services directly related to capital projects in Korea.
5. Purpose: To assist the ROKG in the effective management of its limited economic resources by providing the expertise needed to perform professional studies and analyses of projects and programs to be carried out during the Third Five Year Economic Development Plan (1972-1976).
6. Estimated Cost of Activity: \$2 million in foreign exchange; the ROKG will finance all local currency costs.
7. Other Sources of Financing: Financing of such services on terms comparable to those proposed herein is not known to be available from other free-world sources. The Export-Import Bank of the U.S. (Exim Bank) does consider financing feasibility studies when such a study is likely to result in a project which, in turn, could be eligible for Exim financing. In the implementation of this loan, A.I.D. will consult with Exim to determine their possible interest in financing individual studies (see Part III.A.1). The IBRD has no plans for feasibility study lending in Korea and has not indicated an interest in financing this activity.
8. Mission Views: The Mission feels that this loan is consistent with overall A.I.D. objectives in Korea, and that it is particularly appropriate for A.I.D. to provide such financing at this time (see Part I.B).
9. Issues: There are no issues presented by this loan proposal.
10. Statutory Criteria: All statutory criteria have been met (see Annex E).
11. Recommendation: Authorization of a loan in the amount of \$2 million

November 3, 1971

Part I. Background and Introduction

A. Development Planning in Korea, and the Proposed Loan

The growth and development of the Korean economy over the past decade, and particularly the past five years, is a well-known success story. Many factors have contributed to this success - the resourcefulness and initiative of the Korean people, significant policy measures undertaken by the Government of Korea (ROKG), and substantial amounts of economic assistance, to mention several. Of equal importance to these separate contributing factors has been and continues to be the effective management and utilization by the ROKG of the various economic inputs, without which the gains of the economy could not have reached their present levels. This effective management and utilization of resources has been accomplished largely through the mechanism of well-conceived and energetically-pursued economic development plans, known as the Five Year Plans, <sup>1/</sup> which have established developmental goals and identified specific projects and programs to be undertaken and/or expanded.

The development and implementation of the Plans is the responsibility of the Economic Planning Board (EPB), a cabinet-level entity of the ROKG, which will be the implementing agency of the proposed loan. EPB, in existence since 1963, is under the direction of the Deputy Prime Minister, who also holds the office of Minister, Economic Planning Board; his senior staff includes a vice minister, two assistant vice ministers, and several office directors. EPB is responsible for matters pertaining to the establishment and implementation of overall development plans for the national economy, formulation and execution of the budget, overall coordination of plans for mobilization of resources available within and outside the country, and those matters concerning economic cooperation with international organizations.

EPB is organized into major bureaus and offices of Economic Planning, Budget, Economic Cooperation, Investment Promotion, Management, and General Affairs which includes a Research and Statistics Division. The Economic Cooperation Bureau, under the Assistant Vice Minister for Operations, is responsible for coordination and implementation of foreign loans and investments, and will be the primary office responsible for the implementation of the proposed loan. The staff of EPB and their capabilities are well-known to the Mission, and a working relationship between the Mission and EPB has evolved which is considered to be very satisfactory to both.

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<sup>1/</sup> First Five Year Plan: 1962-1966  
Second Five Year Plan: 1967-1971  
Third Five Year Plan: 1972-1976

In 1958, a loan of \$1,115,000 from the Development Loan Fund financed one major feasibility study, that of a hydroelectric project. Although the project, per se, was found to be feasible, it was not pursued at the time because alternative thermal power projects could be completed in a shorter time and at less cost. Since 1958, several other studies have been grant-financed on a case-by-case basis.

In 1965, primarily in support of the Second Five Year Plan (SFYP), A.I.D. and the ROKG signed a \$2 million loan agreement (A.I.D. Loan No. 489-H-030) to finance the U.S. dollar costs of feasibility studies of individual projects in such fields as industry, energy resources, communications, banking and finance, transportation (including ports and harbors), water and land resource development, water and sewerage facilities, fishing, agriculture and urban development. At the request of the ROKG, the loan agreement was subsequently amended to provide for the financing of prefeasibility studies, sector surveys, market studies and consulting services directly related to capital projects. To date, sixteen studies (see Annex B for a listing of the studies and the results thereof) have been completed in such areas as machine tool manufacturing, thermal power generation, petrochemicals, tideland and harbor development, grain storage, hotels, wood pulp, and electronic data processing. Approximately half of the completed studies have led to projects financed by A.I.D. or other lending institutions. The seventeenth study is currently underway (expansion of Seoul's Kimpo International Airport), another will commence in the immediate future (farm mechanization), and a final study (electric power development and management) is in advanced stages of planning. Of the roughly \$700,000 remaining uncommitted to specific studies under Loan No. 489-H-030, approximately \$300,000 is being reserved for the farm mechanization study and the balance for the electric power study. Should these two studies not require the entirety of funds remaining in Loan 030, the residual will be deobligated.

agricultural sector (including forestry and fisheries) will experience a large increase in its share of total investment; it will receive 11.8% of the total, compared with 6.3% received during the SFYP. (The equivalent dollar amount allocated to the agricultural sector is \$1.44 billion.) As a consequence of the emphasis being placed on the agricultural sector, the percentages of total investment earmarked for mining and manufacturing, and for social overhead and other services, will both decline (see Table I below). In absolute terms, however, the amounts to be invested in mining and manufacturing and in social overhead and services will still show substantial increases over the amounts so invested during the SFYP.

TABLE I

Third Five-Year Plan Investment Allocation

	1967-71 (est.)	1972-76 (proj.)	Composition in %	
			1967-71	1972-76
Agriculture, Forestry and Fishery	189.0	536.1	6.3	11.8
Mining and Manufacturing	882.0	1,301.0	29.4	28.8
Mining	(28.9)	(66.6)	(1.0)	(1.5)
Manufacturing	(854.1)	(1,235.3)	(28.4)	(27.3)
Social Overhead and Other Services	1,927.6	2,626.5	64.3	59.4
Power )		252.4 )		( 5.6)
Transport )		(1,064.7) )		(23.5)
Education )	n.a.	( 202.6) )	n.a.	( 4.5)
Housing )		( 382.7) )		( 8.4)
Others )		( 754.2) )		(17.4)
<u>Total</u>	<u>2,999.6</u>	<u>4,524.5</u>	<u>100.0</u>	<u>100.0</u>

Source: The Government of Korea, The Third Five-Year Economic Development Plan (A Draft Translation), 1972-76.



## 2. Investment Portion of the Plan

The following sectoral investment levels, projects and programs are identified in the TFYP:

### Agricultural Sector - \$536 Billion

#### Increased Output

- expanded production of "miracle" rice varieties and increased use of fertilizer generally to improve yields
- further development of beef cattle through introduction of improved breeding stock, increased use of artificial insemination, and cultivation of 50,000 hectares of new pastureland
- technical assistance for better management of mulberry farms and improved silkworm cultivation

#### Production Infrastructure

- expansion of irrigated land by 77,000 hectares, repair and maintenance of irrigation facilities on 167,000 hectares
- rearrangement of an additional 250,000 hectares of rice paddy-land
- major development of four river basin areas

#### Betterment of the Rural "Environment"

- replacement of thatched roofs on rural dwellings with permanent roofs
- expansion of rural road networks and improvement of existing roads
- provision of electrification to 1,000,000 rural homes

Farm Mechanization - substantially increased availability of various mechanized equipment and provision of additional credit for purchase by farmers

Forestry - reforestation of 477,000 hectares and introduction of erosion control on an additional 60,000 hectares

Fisheries - improvement of vessels and equipment, to include installation of engines in offshore fishing vessels, provision of powered seines, etc.



- expansion of aquaculture, including provision of 16,000 units for oyster culture
- improvement and expansion of port facilities, to include construction of breakwaters, stevedoring yards and piers, and installation of lubrication and telecommunication facilities
- expansion of processing and marketing facilities
- development and dissemination of fishery technology.

Mining and Manufacturing Sectors, W1,302 Billion

Mining - further expansion of coal mining operations in order to increase output to a level of 18,000 MT by 1976

Manufacturing - completion of integrated iron and steel complex, which includes production of crude steel, pig iron and special steel

- construction of heavy machinery manufacturing plant, ship-building yard and electronic parts plant
- construction of facilities to produce styrene monomers and ethylene glycol, and additional production capacity for polyester fibres
- expansion of oil refining capacity
- replacement of obsolete equipment and expansion of yarn spinning capacity in nylon and in acrylics and polyester fibres

Other Sectors W2,627 Million

Education - construction of 5,000 elementary school classrooms, and 19,000 secondary school and college classrooms

- expansion of vocational education facilities

Health - addition of 7,000 hospital beds

- increased efforts to control infectious diseases
- expansion of family planning services

Housing - construction of 800,000 family units

Electricity - substantial increases in capacity to generate, transmit and distribute electricity

Communications - increases of intra-city telephone services by addition of 500,000 circuits, telegraph by 6,000 circuits, and international service by 260 lines

Railroads - electrification of additional lines, procurement of additional diesel locomotives, freight cars and passenger cars

Subway - construction of a 26.5 km subway system in Seoul

Highways - construction of 1,000 km of expressways; pavement and improvement of existing roads

Ports and Harbors - construction and/or rehabilitation of 13 major ports and port facilities, including Pusan and Incheon

Airports - expansion and improvement of Kimpo International Airport; upgrading of other air transportation facilities

Water Supply - construction of major dams and water supply/sewage systems.

### B. Role of the Proposed Loan

The foregoing listing of projects and programs is provided to indicate the scope and magnitude of the investment portion of the TFYP which, in turn, is indicative of the nature and extent of the specific investment decisions with which Korean planners will be confronted over the next five years, and the use to which this loan will be put. Many of these investment decisions will have far-reaching effect, particularly with respect to the TFYP's goals and targets, and it is essential that the ROKG proceed with specific projects and programs on the basis of careful analysis and well-founded selection procedures. At the present time, Korea does not have the depth of skilled, experienced technicians, consultants and economic planners required to perform the type of studies needed to support the important investment decisions to be made in the near future. Therefore, it is the role of the proposed A.I.D. loan to provide the ROKG with the resources to finance the foreign exchange costs of expertise required to provide the bases for sound investment decisions.

The final version of the TFYP was published only recently and the ROKG is still in the process of selecting the prospective projects and activities of which feasibility and other studies will be made. However, the ROKG and the Mission have held continuing discussions on a tentative list of studies to be financed under the loan; included are the following:

Overall transportation sector and related rate study;

Study of centralized electronic data collection and processing services for EPB;

Development of selected port and harbor facilities  
(UNEP sponsored prefeasibility reconnaissance survey currently in process);

Development of selected river basin development projects;

Feasibility of a major hydroelectric project on the Han River in the vicinity of Chung Ju;

Various export development and marketing studies including feasibility and investment studies based on market surveys, trade promotion facilities, market development and advertising, development of export credit facilities and development of export industrial estates;

Various urban development studies including water and sanitation projects, housing and pollution and environmental control;

Feasibility of selected industrial and infrastructure projects as may be proposed by the EPB.

Foreign exchange financing under the proposed loan has been established at \$2 million, and is felt by the Project Committee to be adequate to meet the ROKG requirements primarily for U.S. consultants and services over a two to three year period. This judgment takes into consideration TFYP financial, sectoral, program and project requirements, other sources of external financing, and improved Korean contracting practices. The judgment also reflects the Korean utilization rate of the current Feasibility Study Loan (489-H-030), which has been slower than originally contemplated, with commitments extending over a five-year period. Several factors have contributed to this rate: lack of experience with international contracting procedures; the availability of project financing for a number of studies which might have been financed under the A.I.D. loan; and a preponderance of relatively small studies - only five of the 17 studies being undertaken were over \$100,000. In contrast to the existing loan, the proposed loan is expected to finance larger and more sophisticated studies (which could cost in the neighborhood of \$500,000); has no competition from other external financial sources of a similar nature; and will make use of the contracting experience already acquired by the EPB and other Korean agencies.

#### C. Balance-of-Payments and Debt Service Considerations

The growth and development of the Korean economy over the past five years has been impressive, to say the least. From 1966 through 1970, GNP (in constant 1965 prices) increased at an average annual rate of more than 10%, and total GNP growth for the period more than doubled that of the previous five years. There was a distinct shift in GNP composition, e.g. industrial production increased from 20% of the total in 1965 to 28% in 1970, and agriculture decreased from 39% to 26%. Even more dramatic was the comparative absolute performances of these two sectors; industrial output rose by 166%, while agriculture output increased only 18%. Exports, heavily emphasized by the ROKG, have grown by an average rate of approximately 33% over the five-year period. The Korean citizen has benefitted noticeably from the economic expansion, as annual per capita income more than doubled, from approximately \$115 in 1965 to approximately \$250 in 1970.

To maintain the rates of growth described above, heavy investment has been required. Although domestic savings increased impressively and financed an annual average of 55% of gross investment, increasingly substantial capital inflows as well as credit expansion with resulting inflation have been necessary. Consequently, problems of financial management are a major concern to the ROKG. In particular, the management of Korea's BOP over the next several years is quite important to the country's development efforts. A continuing flow of foreign capital is essential to assist in financing the planned development, and the availability of that capital will depend - to a large extent - on Korea's actual progress in reducing the substantial BOP deficits of recent years.

Earlier this year, the Mission prepared a BOP projection on the basis of a 9% annual growth rate in GNP\* and a de facto devaluation of the won by 35% over the period of the TFYP (see Table 2). Under these assumptions, the trade deficit would decrease from \$992 million in 1969 to \$306 million in 1974; however, net foreign capital requirements would remain substantial amounting to \$590 million. This is to say that, even though the overall BOP situation is expected to improve over the next few years, a continued high level of foreign capital will be required to assist in financing the development effort.

As would be expected, Korea's external debt service requirements have become rather high. On loans of over one year maturity, the annual servicing requirement was \$340 million in 1970 and is expected to rise to \$600 million by 1974 (see Table 3). As a percentage of foreign exchange earnings, however, debt service will likely decline from approximately 25% this year to around 22% in 1974.

Considering Korea's overall BOP situation, present and projected, a continuation of A.I.D.'s concessionary development loan terms (40 years including 10-year grace period; 2% during grace, 3% thereafter) for the present is felt to be justified. On such terms, servicing of this loan will require no more than \$40,000 in any one year during the grace period, and a high of \$127,000 during the 30-year amortization, that amount declining gradually as principal is repaid thereby lowering the annual interest payment. Given the projected increases in export earnings vis-a-vis Korea's total external debt servicing requirements, the prospects of repayment of this loan are considered reasonable.

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\*Although the TFYP calls for an average annual growth rate of 8.6%, it is recognized that the existing momentum of the economy may well cause a higher rate of growth for the next several years.

TABLE 2

## KOREA: BALANCE OF PAYMENTS

Item	Millions of Dollars						
	Actual 1968	1969	1970	1971	1972	1973	1974
1. Exports, F.O.B.	486.2	658.3	838.0	1,163.0	1,404.0	1,862.0	2,294.0
2. Imports, F.O.B.	1,322.0	1,650.0	1,748.0	1,950.0	2,155.0	2,369.0	2,600.0
3. Trade gap (1-2)	-335.8	-991.7	-960.0	-794.0	-661.0	-487.0	-306.0
4. Net receipts for services	174.7	201.9	160.8	113.8	25.9	-34.1	-90.8
5. Net investment income	-5.4	-4.6	-57.2	-62.0	-110.5	-159.1	-195.3
6. Net goods & services (3+4+5)	-666.5	-794.4	-756.4	-763.1	-754.6	-680.2	-592.1
7. Net transfer receipts	226.1	243.6	157.0	114.7	107.6	91.5	75.2
8. Net current account (6+7)	-440.4	-550.8	-599.4	-648.4	-647.0	-588.7	-516.9
9. Changes in foreign exchange holdings (increase (-))	-40.4	-161.8	-25.0	-21.0	-16.0	-30.0	-71.0
10. Net capital requirements (8+9)	476.7	716.6	624.4	669.4	663.0	627.7	587.9
11. Errors & omissions	+4.1	-4.0	0	0	0	0	0

Note: Projection assumes low growth and improvement in exchange rate.

TABLE 3

## KOREA: DEBT SERVICE RATIOS

Item	Millions of dollars						
	Actual 1968	1969	Projected 1970	1971	1972	1973	1974
A. Foreign Exchange Earnings	<u>880.2</u>	<u>1,150.7</u>	<u>1,373.2</u>	<u>1,421.1</u>	<u>1,394.0</u>	<u>2,270.4</u>	<u>2,657.8</u>
1. Export, F.O.B.	486.2	658.3	880.0	1,165.0	1,404.0	1,882.0	2,294.0
2. Service earnings	381.6	454.5	443.2	414.2	367.5	350.0	340.4
3. Investment income receipt	12.4	37.9	50.0	42.6	43.3	47.4	-53.4
B. Principal and Interest Payments on Debt Maturities 3 Years and Above	59.6	102.0	180.2	243.5	310.8	341.1	441.6
C. Principal and Interest Payments on Debt of One to Three Years	16.6	25.0	134.0	157.0	120.0	130.0	148.0
D. Debt Service Ratio on Foreign Obligations with Maturities of Three Years and Above $D = B/A \times 100$	6.8	8.9	13.1	15.0	16.3	15.0	16.4
E. Debt Service Ratio on Obligations with Maturities of One Year and Above $D = B + C/A \times 100$	8.7	11.0	22.9	24.7	22.6	20.7	21.9

### Part III. Loan Implementation

#### A. Implementation Plan

The procedures to be followed in the implementation of this proposed loan will be virtually the same as those followed under the previous A.I.D. feasibility studies loan to Korea. As stated elsewhere in this paper and in the draft loan authorization (Annex F), pre-feasibility and feasibility studies, sectoral studies, marketing studies and consulting services directly related to capital projects will be eligible for financing. The financing of final design services is not precluded; however, in order for such services to be eligible, the feasibility of the project must already have been determined -- final design services are not to be a part of feasibility studies financed hereunder. Additionally, the arrangements for financing a project must be reasonably firm before final design services will be considered for financing hereunder. With respect to feasibility studies to be financed, the prospective source of financing for the project (assuming a positive feasibility determination) will be discussed with the ROKG, and the lending criteria of that financial source will be taken into consideration in the preparation of the scope of work for the study. In all cases, the lending and economic development criteria of A.I.D. will be taken into consideration.

Acting through the Economic Cooperation Bureau of EPB, the ROKG will advise A.I.D. of the specific studies and services for which financing is needed, and solicit A.I.D.'s approval of both the proposed study and the scope of work for the study. As part of this approval process, A.I.D./Washington will consult with the Exim Bank, whenever appropriate, to determine whether the Bank is interested in and prepared to finance the particular study or services. Following the method outlined in A.I.D.'s Capital Projects Guidelines (M.O. 1442.1), the ROKG will prequalify candidate-firms (including universities, etc.), if appropriate, and then invite submission of detailed technical proposals, evaluate the proposals, and proceed to negotiate contracts with the firm selected to perform the required services. All local currency costs of the studies will be financed by the ROKG.

#### B. A.I.D. Implementation Responsibilities

Upon authorization of the proposed loan, a draft loan agreement will be prepared by A.I.D./Washington and transmitted to the Mission with the authority to negotiate and sign the agreement. Implementation instructions will then be issued to the Borrower (ROKG) through the Mission. A.I.D. approval will, of course, be required of the documentation submitted by the ROKG in satisfaction of the Conditions Precedent to Disbursement. Assuming such conditions are satisfied, A.I.D. will then be prepared to receive the ROKG's requests to finance specific studies and programs. A.I.D. approval will also be required of the ROKG's prequalification procedures, the firm selected, and the contract.



### C. Environmental Considerations

As stated in A.I.D.'s Manual Circular No. 1221.2, dated August 18, 1970, it is the policy of this Agency to require an assessment and consideration of the environmental aspects of capital projects. Further, such assessment is to be made and consideration given during the planning stages of projects. The applicability of the Agency's position on environmental considerations to the proposed loan is obvious. Accordingly, A.I.D. will require that the scopes of work for the studies to be financed call for an identification and assessment of the direct and/or potential environmental effects of the projects, and that such environmental analysis and the results thereof be quantified wherever the situation permits.

Part IV. Effect on the U.S. Economy

The eligible sources for the services, equipment and materials to be financed by this loan will be the countries included in A.I.D.'s Geographic Code 941 (the U.S. and Lower Income Countries). It is expected, however, that the U.S. will be the major source-country for the firms performing these services, and any adverse effect on the U.S. Balance-of-Payments should be no more than minimal. To the extent that studies financed hereunder result in projects generating U.S. procurement, this loan will have a positive effect. Such positive effect cannot, of course, be estimated at this time.

Grant-financed Feasibility Studies, 1957-1961

Following the Korean War, the Government of South Korea undertook to carry out a program of reconstruction, rehabilitation and economic development. To obtain needed assistance in this effort, the Government of Korea entered into a \$7,000,000 grant-funded contract with the consulting firm of Smith, Hinchman and Grylls Associates, Inc. and the International Cooperation Administration (ICA). The initial period of performance of this contract was two years, starting in February 1957; it was later extended for an additional two years to February 1961. The consultant was to provide management, advisory, consultation, engineering and other services essential to the furtherance of the rehabilitation program in the fields of industry, power, mining, communication, public works and transportation.

Listed below are the major categories of studies and individual project studies provided under the above contract:

-Technical services for locating hydro-electric power	\$188,000
-Engineering services for electric power rehabilitation and development	242,000
-Determination of feasibility of hydro-electric plant sites	122,000
-Rehabilitation of Yong Wol & Tanzin-ri Power Plant	22,633
-Rehabilitation of Nam Hydro Power Plant	8,600
-Rehabilitation of the Unong Pyong Dam	15,000
-Power Systems Operations Improvement	75,965
-Electric Rate Study	59,900
-Second Fertilizer Plant	42,700
-Sulaw Pulp Plant	61,000
-Caustic Soda Plant (Korea Agricultural Chemical Co.)	7,650
-Caustic Soda Plant (Korea Explosive Co. Ltd.)	7,650
-Medium Industry Development	275,000
-Industry-Engineering Services	670,000
-Fertilizer Plant No. 2 - Technical Services	25,000
-General Engineering Services	990,000
-Waterworks Rehabilitation	30,000
-Housing, Chungja Fertilizer Plant	14,800
-General Engineering Services	<u>4,236,607</u>
	\$7,095,072

Feasibility Studies financed under A.I.D. Loan No. 489-U-030

- |   |   |
|---|---|
| 1) Incheon Harbor Development Study<br>(Second Tidal Basin Project)   | A viable project; Assisted in part by French financing.   |
| 2) Machine Tool Industry Study in Korea   | A positive conclusion was reached by the consultant; even though no specific project resulted, the Korean machine tool industry has expanded.   |
| 3) Farm Tool Manufacturing Plant Study<br>(construct and/or modernize farm tool manufacturing plant in Korea) | A positive conclusion was reached by the consultant; farm tool plant has expanded since study was undertaken.   |
| 4) Yongnam Thermal Power Station Study  | A viable project; resulted in AID Loan No. 489-U-046, Yongnam Thermal Power Plant.  |
| 5) Study for a Heavy Equipment and Dredger Pool in Korea  | A positive conclusion was reached by the consultant; however, no project resulted.  |
| 6) Study for a Major Hotel in Seoul   | A positive conclusion was reached by the consultant; although the Korean Government submitted a Loan Application to AID for the construction of a first class hotel, the project was not pursued because of other private-enterprise-financed hotel construction in Seoul following this study. |
| 7) Study of the Buchang Tideland Reclamation in Korea   | A positive conclusion was reached by the consultant; however, a project was not pursued due to expected high costs and questionable economic viability.   |
| 8) Pulp Manufacturing Plant Study<br>(100,000 metric ton capacity-using chips and/or logs as raw material)    | A negative conclusion was reached by the consultant.  |
| 9) Fisheries Study<br>(Tuna/Mackeral Cannery)   | Consultant's conclusion considered marginally positive; still under active study by interested U.S. commercial fishery companies.   |

- |   |   |
|---|---|
| 10) Satellite Communications Ground Stations Study  | A viable project; Export-Import Bank financed.  |
| 11) Study for Sheet Glass Manufacturing Facility  | A viable project; financed in part by commercial loan.  |
| 12) Chungju Armonia Plant Study   | A viable project; resulted in AID Loan No. 489-H-065.   |
| 13) Acetaldehyde Derivatives Project (Ulsan, Korea)   | A positive conclusion was reached by the consultant; however, no project resulted.  |
| Acrylonitrile Plant Study   | Skelly oil conducted its own feasibility analysis resulting in AID Loan No. 489-H-066.  |
| 14) Long Range System Planning Electric Power Study   | Study incomplete.   |
| 15) Waterworks Management and Water Accounting Advisory Services Study (Inchon, Korea)  | A viable project; consultant's report for the most part was adopted.  |
| 16) Grain Storage Study (for grain storage, handling, processing and transportation program in Korea)   | A viable project; many of the consultant's recommendations have been adopted and some have been incorporated in part into AID Loan No. 489-H-080, Agricultural Credit Loan. |
| 17) Kimpo Airport Expansion Study (Modernizing and expanding Kimpo International Airport to meet present and future needs)  | Study still in progress; consultant's interim report indicates a positive conclusion.   |
| 18) Study for Electronic Data Processing (Application in telephone billing, postal savings, insurance, inventory control in Seoul, Korea, with eventual expansion to nation-wide usage) | A positive conclusion was reached by the consultant; financing being actively sought by the Korean Ministry of Communications.  |
| 19) Farm Mechanization Study  | Study contract being negotiated with the consultant.  |



ECONOMIC PLANNING BOARD  
REPUBLIC OF KOREA  
Seoul, Korea

September 28, 1971

The Honorable  
Michael H.B. Adler, Director  
USAID/K  
Seoul, Korea

Dear Mr. Adler:

With this letter I would like to present my government's request for a loan of another Two Million Dollars in addition to the presently available Two Million Dollar Feasibility Study Loan (AID Loan No. 489-H-030).

The value and usefulness of the proposed loan have been well demonstrated in the course of utilizing the above referred to loan which is going to be exhausted very soon. Being fully cognizant of the continued necessity of such loans in connection with sound planning and implementation of the projects planned under the Third Five-Year Economic Development Plan, we are attaching high priority to the proposed request.

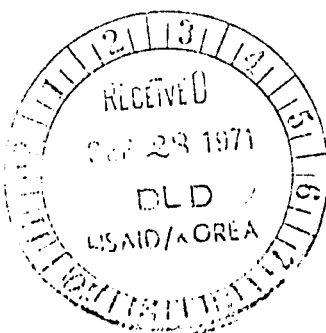
Being the mere extension of the existing system, the proposed feasibility study will be managed and operated in all aspects of criteria establishment, application and draw-down procedure, as well as consultant utilization, in the same fashion as was the case with the First Feasibility Study Loan (AID Loan No. 489-H-030) and the local currency cost will be borne by the government budget.

In view of the foregoing, I sincerely hope that you share with us a sense of the necessity of the proposed loan. Your favorable consideration and necessary action in this connection will be highly appreciated.

Sincerely yours,

*Kim, Hak-Yul*  
Kim, Hak-Yul  
Deputy Prime Minister  
and

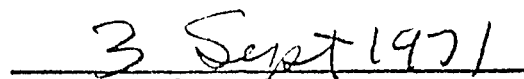
Minister of Economic Planning Board



CERTIFICATION PURSUANT TO SECTION 611 (e) OF  
THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Michael H. B. Adler, the principal officer of the Agency for International Development in Korea, having taken into account among other things, the maintenance and utilization of projects in Korea previously financed or assisted by the United States, do hereby certify that in my judgment Korea has both the financial capability and the human resources capability to effectively utilize the capital assistance to be provided by the Second Feasibility Studies loan.

  
\_\_\_\_\_  
Michael H. B. Adler

  
\_\_\_\_\_  
Date



STATUTORY CHECKLISTI. COUNTRY PERFORMANCE

## A. Progress Towards Country Goals

1. P.L.A. §§ 201(b)(5), 201(b)(7),  
201(b)(8), 203. Discuss the  
extent to which the country is:

(c) Making appropriate  
efforts to increase food  
production and improve  
means for food storage and  
distribution.

(a) From 1961 through 1970 the  
National Income accounts show that  
the value added in the agriculture  
sector increased by approximately  
50% (an average growth of 5% per  
year or a growth rate of 4.1%).  
Significantly, this decade included  
the two drought years of 1967 and  
1968; however, significant invest-  
ments have been made in irrigation  
facilities which will minimize future  
weather influences on production.

In the past two years, rice prices  
have been allowed to increase  
substantially more than the 5%  
increase allowed in the previous  
three years. This increase will  
provide additional incentive for  
farmers to use fertilizer and  
pesticides required to increase  
production.

Substantial effort and expenditure  
is being made to introduce new rice  
varieties, and to increase and  
improve food storage capacity.

(b) Creating a favorable climate for foreign and domestic private enterprise and investment;

(b) Korea has taken a number of effective steps to create a favorable investment climate. A liberal foreign investment law was enacted, and intensive study is being undertaken by the ROKG of means of expanding capital markets. An investment center has been established.

The 1969 U.S. Industrial Machinery Exhibition held in Seoul produced sales amounting to \$4.6 million dollars worth of U.S. manufactured machinery and equipment. A similar exhibition is being held in October 1971 in Seoul for which Export-Import Bank credits will be available.

Domestic investment has been assisted by a number of A.I.D. loans such as the loan to the Korea Development Bank.

(c) Increasing the people's role in the developmental process;

(c) Koreans are basically a homogeneous people whose society is relatively free and politically stable. Korea does not possess deep sectional, religious or social cleavages. Korea's rapid economic development benefits increasingly larger segments of the population.

(d) Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs;

(d) Korea has wisely allocated its resources in such a way as to maximize its economic development while maintaining sufficient military forces to insure a relative freedom from threatened external aggression. Korea is not intervening in other free and independent nations' affairs.

(e) Willing to contribute funds to the project or program;

(e) The foreign exchange cost of this activity is estimated to be \$2 million, which will be funded by the A.I.D. loan. Each of the studies carried out will incur a percentage of local currency costs, all of which will be financed by the ROKG.

(f) making economic, social and political reforms such as tax collection improvements and changes in land tenure arrangement; and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise;

(f) Korean land reform programs have eliminated the large land-holding class and have created a large number of independent farmers who own their own small farms. The ROKG has assisted in the establishment of a number of farm and fishery cooperatives which have been of significant assistance to the independent farm and fishery communities. Our Mission has also assisted the ROKG in its efforts to reform the equity of tax rates and collection procedures.

These reforms have greatly increased both the amount of taxes collected and the equity with which the program is administered.

(g) responding to the vital economic, political and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

(g) The ROKG has made significant progress in its efforts to provide a better life for the average Korean citizen. The Government has encouraged the rapid expansion of small and medium industry, stimulated the development of farmer credit unions and fishing cooperatives and has helped in many other ways to better the lot of its people. (See TOAID A-994 dated 3-6-67, and TOAID A-1220 dated 2-26-66).

D. Relations with the United States

1. FAA Sec. 620(c). Is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, including arbitration, or (b) the debt is not denied or contested by the government, or (c) the indebtedness arises under such government's or a predecessor's unconditional guarantee?

1. No situation is known to exist.

2. FAA Sec. 620(d). If the loan is intended for construction or operation of any productive enterprise that will compete with U.S. enterprise, has the country agreed that it will establish appropriate procedures to prevent export to the U.S. of more than 25% of its enterprises annual production during the life of the loan?

2. The loan is not intended for such purposes.

3. FAA §620(c)(1). Has the country's government, or any agency or subdivision thereof, (a) nationalized or expropriated property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate or nullify existing contracts or agreements with such citizens or entity, or (c) imposed or enforced discriminatory taxes or other exactions, or restrictive maintenance or operation conditions? If so, and more than six months has elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or subdivision thereof, has taken appropriate steps to discharge its obligations under international law toward such citizen or entity? If less than six months has elapsed, what steps if any has it taken to discharge its obligations?

3. No such actions are known.

4. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction?

4. No such situation is known to have occurred.

5. FAA Sec. 620(l). Has the government instituted an investment guaranty program under FAA Sec. 221 (b)(1) for the specific risks of inconvertibility and expropriation or confiscation?

5. Yes.

6. FAA Sec. 620(o). Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters? If, as a result of a seizure, the U.S.G. has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished.

6. No.

7. FAA Sec. 620(q). Has the country been in default, during a period in excess of 6 months, in payment to the U.S. on any FAA loan?

7. No.

8. FAA Sec. 620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed?

8. Diplomatic relations between Korea and the United States have not been severed.

C. Relations with Other Nations and the U.N.

1. FAA Sec. 620(i). Has the country been officially represented at any international conference when that representation included planning activities involving insurrection or subversion directed against the U.S. or countries receiving U.S. assistance?

1. Korea is not known to have been so represented.

2. FAA Secs. 620(a), 620(n);

Has the country sold, furnished, or permitted ships or aircraft under its registry to carry to Cuba or North Vietnam, items of economic, military or other assistance?

2. No.

3. FSS Sec. 620(u); App. Sec. 102. What is the status of the country's U.N. dues, assessments or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues or arrearages?

3. The Republic of Korea is not a member of the United Nations. The loan agreement will stipulate that only eligible commodities and services can be procured with the proceeds of the loan.

D. Military Situation

1. FAA Sec. 620(i). Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance?

1. No.

2. FAA Sec. 620(s). What is (a) the percentage of the country's budget devoted to military purposes, and (b) the amount of the country's foreign exchange resources used to acquire military equipment, and (c) has the country spent money for sophisticated weapons systems purchased since the statutory limitation became effective?

2. (a) For the period 1967-1970, Korean defense budget expenditures have averaged 3.8 percent of GNP, not significantly above the mean for the region. In 1970 these expenditures as a percent of GNP were 3.7 percent, the same percentage for 1965.

(Findings on these questions are to be made for each country at least once each fiscal year and, in addition, as often as may be required by a material change in relevant circumstances.)

(b) Foreign exchange purchases of military items were about \$3 million over the period 1965 to 1968 and accounted for a negligible portion of the defense budget. In 1969 they were about \$1 million, or 1% of total imports. Korean requirements for imports of military equipment have been provided under the Military Assistance Program.

State and A.I.D. have reviewed Korean actions under the Symington Amendment and have concluded that Korea is not diverting U.S. development assistance or PL 480 sales to military purposes. They also determined that Korea is not diverting its own resources to unnecessary military expenditures to a degree which materially interferes with its development. The Country Team concurs. The following points were among those taken into account in reaching this conclusion.

It is United States policy to assist South Korea in developing the capability to defend itself from Communist attack from the north and to counter Communist attempts at internal subversion. We also support South Korean contributions to regional mutual security efforts in Southeast Asia. At present South Korea has 50,000 troops participating in the allied war effort in South Vietnam. Substantial military expenditures are necessary to support these objectives, and we are contributing to the Korean defense budget to help them finance these costs.

Korean defense budget expenditures as a percent of central government expenditures have declined from 32.0% in 1965 to 20% in 1970, below the mean for the region of 27.2%.



U.S. military budget support derived from PL 480 and Supporting Assistance proceeds has been decreasing, and at the same time the Koreans have been increasing their own military expenditures. The self-financed portion of the Korean defense budget has increased from 38.1% in 1965 to 86.6% in 1970. However, these expenditures have remained relatively stable as a percent of total central government expenditures: 11.7% in 1965 as compared to 15.4% in 1969. Korean self-financed defense expenditures as a percent of GNP rose from 2.7% in 1969 to 3.2% in 1970.

(c)

## II. CONDITION OF THE LOAN

### A. General Soundness

#### Interest and Repayment

1. FAA E8201(d), 201(b)(2). Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the grace period interest rate; the following period interest rate? Is the rate of interest higher than the country's applicable legal rate of interest?

The proposed loan contains a rate of interest which is concessionary. The borrower has the capacity to repay the loan at the rates of interest to be required. The rates in the proposed loan are 2% per annum during the grace period and 3% per annum thereafter for the remaining thirty years of the repayment period. The interest rate is not higher than the country's applicable legal rate of interest.

#### Financing

1. FAA E201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?

Financing of such services on terms comparable to those proposed for this loan is not known to be available from other free-world sources, including private sources within the U.S. The Export-Import Bank of the U.S. does, under certain circumstances, finance feasibility studies. In the implementation of this loan, A.I.D. will consult with, and take into consideration the availability of financing for individual studies from, the Exim Bank,

### Economic and Technical Soundness

1. FAA 88201(b)(2), 201(a).  
The activity's economic and technical soundness to undertake loan; does the loan application, together with information and assurances, indicate that funds will be used in an economically and technically sound manner?
  1. The project is economically and technically sound, and the loan application and other information available to the Mission indicates that the loan funds will be used in an economically and technically sound manner.
2. FAA E611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonable firm estimate of the cost of assistance to the U.S., been completed?
  2. Not Applicable.
3. FAA E611(a); App. E101.  
If the loan or grant is for a water or related land-resources construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. construction standards and criteria used in determining feasibility?
  3. This activity, per se, does not involve water or related land resources. However, subtypes of such projects or programs to be financed under this loan will include cost/benefit computations. The Project does meet the relevant U.S. construction standards and criteria used in determining feasibility.
4. FAA E611(e). If this is a Capital Assistance Project with U.S. financing in excess of \$1 million, has the principal A.I.D. officer in the country certified as to the country's capability effectively to maintain and utilize the project?
  4. The principal A.I.D. officer in Korea has so certified (see Annex D).

D. Relation to Achievement of  
Country and Regional Goals

Country Goals

1. FAA ES207, 281(a).  
this loan's relation to:

a. Institutions needed for a democratic society and to assure maximum participation on the part of the people in the task of economic development.

b. Enabling the country to meet its food needs both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity.

c. Meeting increasing need for trained manpower.

d. Developing programs to meet public health needs.

1.(a) This loan is expected to result in increased development of the basic infrastructure of Korea, which in turn is essential to an active development of Korea's private sector and an expansion of participating opportunity on the part of the people of Korea.

(b) Studies sponsored under this loan will in every case contribute to overall development and may in specific cases add directly to the impetus given to agricultural productivity.

(c) The effort generated in carrying out the studies under this loan will result in practical training of manpower in many fields.

(d) Benefits to health may be realized directly or indirectly depending upon the studies and projects identified.

e. Assisting other important economic, political, and social development activities, including industrial development; growth of free labor unions; co-operatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administration; urban development; and modernization of existing laws.

(e) This loan can be expected to have a definite positive impact on industrial development, improvement of transportation and communication systems, planning capabilities and urban development. There is no direct relation to other activities cited.

2. EIA §201(b)(4). Describe the activity's consistency with and relationship to other development activities, and its contribution to realizable long-range objectives.

2. This loan is given in a multilateral context and furthers Korea's ability to achieve long-range development objectives through identification of development projects and areas.

3. EIA §201(b)(2). How will the activity to be financed contribute to the achievement of self-sustaining growth?

3. Studies to be financed under the loan will contribute to Korea's Third Five Year Plan and general economic development.

4. EIA §201(f). If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development.

4. See 1. and 2. above.

5. FAA E201(b)(3). In what ways does the activity give reasonable promise of contributing to development of economic resources, or to increase of productive capacities?

6. FAA E281(b). How does the program under which assistance is provided recognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes.

7. FAA E601(a). How will this loan encourage the country's efforts to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions?

5. See 1. and 2. above.

6. Studies under this loan will be directed to basic economic and social needs throughout Korea and will result in broader people's participation and benefits from the economic development process.

7. The loan will facilitate purchase by the country of needed equipment and services. The project will stimulate industrial and commercial activities in such areas as agriculture, business, intermediate processing of agriculture products, and small manufacturing, which will increase the probable quantity and value of commodities available for export, will assist Korea in developing more sophisticated products which may be competitive in international trade and create a demand for many new products and equipment required for new commercial and industrial enterprises and private consumption; (b) through improved opportunities for new commercial and industrial enterprises; (c) no direct effect; (d) no direct effect; (e) through greater affects of technical and economic programs reaching broader development fields; (f) no direct effect.

8. FAA §202(a). Indicate the amount of money under the loan which is: going directly to private enterprise; going to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance imports from private sources; or otherwise being used to finance procurements from private sources.

8. The total amount of the loan will be used to finance procurement from private sources.

9. FAA §611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

9. No legislative action will be required as a condition precedent to this loan.

#### Regional Goals

1. FAA §619. If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans?

1. Korea is not a newly independent nation.

2. FAA §209. If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country?

2. This loan is not directed at a regional problem.

Korea is a member of the Asian Development Bank (ADB) and is receiving assistance from the World Bank. Both of these organizations are expected to become increasingly active in Korea.



C. Relation to U.S. Economy

Employment, Balance of Payments,  
Private Enterprise.

1. FAA §§201(b)(6); 102, Fifth.  
What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payments position.

2. FAA §§612(b); 636(1). What steps have been taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. and local currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign owned currencies are utilized in lieu of dollars?

3. FAA §601(a); App. E115. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U.S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nationals of the country or qualified citizens of the U.S.? If so, has the required waiver been obtained?

1. There is no adverse effect from this loan on the U.S. economy or on areas of substantial labor surplus. The U.S. will be an eligible source country of commodities made eligible under the loan. Also, 50/50 shipping will apply.

2. The loan proceeds will be used exclusively to finance foreign exchange costs. All local currency costs will be financed by the host country.

3. All goods and services financed under this loan will be from A.I.D. Geographic Code 941.

4. FAA §608(a). Provide information measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

5. FAA §602. What efforts have been made to assist U.S. small business to participate equitably in the furnishing of commodities and services financed by this loan?

6. FAA §621. If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what ways are they particularly suitable; are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?

7. FAA §611(c). If this loan involves a contract for construction that obligates in excess of \$100,000, will it be on a competitive basis? If not, are there factors which make it impracticable.

#### Procurement

1. FAA §602(a). Will commodity procurement be restricted to U.S. except as otherwise determined by the President?

4. U.S. Government Excess Property will not be utilized for this Project. The highly technical nature of the equipment to be procured, and the necessity of having the most recently-produced equipment precludes use of excess property.

5. Equipment procurement under the loan will be according to established A.I.D. procurement procedures and will follow normal commercial trade practices to the maximum extent allowable, thereby assisting U.S. small business to participate in furnishing the commodities to be financed.

6. Project implementation generally will be carried out by private enterprise under loan financed contracts on basis of applicable A.I.D. regulations. To extent Federal agencies will be utilized, it will be where the cooperating Government and A.I.D. agree such agencies represent for a selected activity the most practical and economic U.S. source of expertise, and therefore not competitive in the circumstances with private enterprise, and will only be scheduled so as not to interfere unduly with domestic programs.

7. The loan does not involve such a construction contract.

1. Commodity procurement under this loan will adhere to the President's directives regarding the untying of AID procurement as set forth in applicable AID Regulations.



2. FAA 5604(b). Will any part of this loan be used for bulk commodity procurement at adjusted prices higher than the market price prevailing in the U.S. at time of purchase?

2. No.

3. FAA 5604(c). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity?

3. No.

D. Other Requirements

1. FAA 5201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?

1. Yes.

2. Ann. 5106. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms?

2. Contracts financed by the loan will have such approval.

3. FAA 5620(k). If the loan is for construction of a production enterprise, with respect to which the aggregate value of assistance to be furnished will exceed \$100 million, what preparation has been made to obtain the express approval of the Congress?

3. Not applicable.

4. FAA S620(b), 620(f); App. E109(b).  
Has the President determined that the country is not dominated or controlled by the international Communist movement? If the country is a Communist country (including, but not limited to, the countries listed in FAA S620(f)) and the loan is intended for economic assistance, have the findings required by FAA S620(f) and App. E109(b) been made and reported to the Congress?

4. Yes, the required determination has been made.

5. FAA S620(h). What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries?

5. The Loan Agreement will contain a provision covering this requirement.

6. App. E118. Will any funds be used to finance procurement of iron and steel products for use in Vietnam other than as contemplated by E118?

6. No.

7. FAA B636(1). Will any part of this loan be used in financing non-U.S.-manufactured automobiles? If so, has the required waiver been obtained?

No.

8. FAA B620(a)(1) and (2), (20(b)); App. B117. Will any assistance be furnished or funds made available to the government of Cuba or the United Arab Republic?

8. No.

9. FAA B620(g). Will any part of this loan be used to compensate owners for expropriated or nationalized property? If any assistance has been used for such purpose in the past, has appropriate reimbursement been made to the U.S. for sums diverted?

9. No. No assistance has been used for such purposes in the past.

10. FAA B201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?

10. A portion of the work can be expected to be accomplished through direct hire personnel and subcontracts with private firms in the recipient country.

11. App. B104. Does the loan agreement bar any use of funds to pay pensions, etc., for persons who are serving or who have served in the recipient country's armed forces?

11. Yes. The Loan Agreement will cover this requirement.



12. MEA E 901.b. Does the loan agreement provide for compliance with U.S. shipping requirements, that at least 50% of the gross tonnage of all commodities financed with funds made available under this loan (computed separately by geographic area for dry bulk carriers, dry cargo liners, and tankers) be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates for U.S. flag vessels?

12. Yes.

## CAPITAL ASSISTANCE LOAN AUTHORIZATION

Provided from Development Loan Funds  
Korea: Second Possibility Studies Loan

Pursuant to the authority vested in the Acting Director, Office of East Asia Development Programs, Agency for International Development (hereinafter called "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the Delegations of Authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title I, the Development Loan Fund, to the Government of the Republic of Korea (hereinafter called "Borrower") of not to exceed Two Million Dollars (\$2,000,000), to assist in financing the foreign exchange costs of services, equipment, and materials necessary for the performance of economic and technical prefeasibility and feasibility studies, sectoral studies, market studies and other capital project-related activities in Korea. This loan is to be subject to the following conditions:

1. Interest Rate and Terms of Repayment

This loan shall be repaid by the Government of Korea within forty (40) years after the date of the first disbursement thereunder, including a grace period of not to exceed ten (10) years. The interest on the unrepaid principal balance of the loan shall be from the date of first disbursement at the rate of two percent (2%) per annum during the grace period and at the rate of three percent (3%) thereafter.

2. Currency of Repayment

Provision shall be made for repayment of the loan and payment of interest in United States dollars.

3. Other Terms and Conditions

(a) Services and commodities financed under the loan shall have their source and origin in countries under A.I.D. Geographic Code 941 (Selected Free World).

(b) Unless A.I.D. shall otherwise agree in writing, prior to initial disbursement of loan funds, Borrower will submit to A.I.D. for its approval, the procedures to be employed by Borrower in the selection of firms to perform the services to be financed hereunder.

(c) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

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Date



2 ext copies  
plus 48 page memo and  
file one in each of the  
3 loan files

W. Lefter

Nov 29 1 19 PM '76

16 DEC 1976

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

FROM: A/AA/ASJA, Michael H. B. Adler *Michael H. B. Adler*

SUBJECT: Extension of Terminal Disbursement Dates (TDD) for three loans: (1) Indonesia Central Java Power Rehabilitation (497-H-019)/\$27.4 million (2) Indonesia Project Development Loan (497-H-027/\$5.0 million) (3) Korea - Second Feasibility Studies Loan (482-H-083/\$2.0 million) *file*

Problem: We propose an extension of the TDD from December 31, 1976 to March 31, 1977, for the three subject loans, for the sole purpose of effecting payments to contractors for services performed prior to the existing TDD. Your approval is required since all three loans were designated as Class B Loans by the 1975 AID Loan Pipeline Review Team.

Discussion:

A. Indonesia - Central Java Power Rehabilitation Loan

Subject loan was authorized on April 17, 1970, and the loan agreement was signed on May 22, 1970. Following an Amendment in 1972 and subsequent small deobligation, the loan amount is \$27,400,000. Because of slow early loan disbursement, the 1975 Loan Pipeline Review Team designated subject loan as a Class B loan, with an Asia Bureau commitment not to seek extension of the TDD beyond October 31, 1977. On February 24, 1976, the Deputy Administrator approved an extension of the TDD to December 31, 1976, with the understanding that longer-term training in household electric service conversion contemplated under subject loan would be financed instead under Loan 497-T-040. (See Annex A - Memorandum from AA/ASJA to the Deputy Administrator, dated February 24, 1976).

As of October 31, 1976, 98.4% of loan funds had been committed and 91% had been disbursed. According to contractor work schedules and the consulting engineers' estimates, corroborated by USAID/Indonesia, all loan-financed activities will be completed prior to December 31, 1976, the current TDD. However, the Government of Indonesia (GOI) and USAID

have requested a three-month extension of the TDD to March 31, 1977, solely for making final contractor payments. The extension is viewed as necessary for the following reasons:

(1) The contractor responsible for constructing the distribution system completed its work in October 1976. The consulting engineer, C. T. Main, will need until December 1976 to complete its inspection and testing of the finished system, inventory of equipment and materials, and reconciliation with contractor invoices. C. T. Main will not be in a position to certify the contractor's final invoice until December 1976, and the retention payment probably cannot be effected until February/March, 1977.

(2) The contractor responsible for installation of a Diesel Power Plant in Yogyakarta recently furnished the Borrower with a new engine crankshaft to replace a crankshaft that failed during operation. The consulting engineer is needed to conduct final tests on the plant after installation of the new part. Since this evaluation cannot be completed until December, additional time will be needed to pay the consulting engineer for these inspection services and make the retention payment to the contractor.

(3) Similar problems exist with respect to completion of a gas turbine-generator unit and installation and testing of mobile radio units. All work will be completed by the existing TDD, but additional time is required to make final contractor payments.

#### B. Indonesia - Project Development Loan

Subject loan was authorized on July 5, 1971, and the loan agreement was signed on November 3, 1971. Following a small recent deobligation, the loan amount is \$4.6 million. The 1975 Loan Pipeline Review Team designated subject loan as a Class B loan, with the understanding that the Asia Bureau would seek an appropriate extension of the TDD. On November 10, 1975, the Deputy Administrator disapproved a request to extend the TDD to August 31, 1977, that was desired in order to permit the commitment and use of the uncommitted loan balance of \$509,000. (See Annex B - Memorandum from AA/ASIA to the Deputy Administrator, dated November 7, 1975). Most of this balance was subsequently deobligated.

As of October 31, 1976, 97.7% of loan funds had been committed and 71% had been disbursed. Work was nearing completion on four separate feasibility/design studies and according to contractor work schedules, all loan-financed services will be completed prior to December 31, 1976, the current TDD. However, because completion of one study, the Citanduy/Ciseel River Basin Design, is not expected to occur until late December,

1976, the existing TDD does not provide sufficient time for processing the final contractor payment. Accordingly, the GOI and USAID have requested a three-month extension of the TDD to March 31, 1977.

Engineering Consultants, Incorporated (ECI), the contractor on the Citanduy Study has been engaged for three and one-half years in preparing a master plan, feasibility studies, and engineering designs for development of the Citanduy River Basin. ECI's performance has been considered highly satisfactory by both the GOI and USAID. Given the remoteness of the project area, initial inadequacy of basic hydrological and geological data, and additional technical requirements incorporated in a 1975 contract amendment, the modest delay (one-two-months) in contract completion is viewed as acceptable by the GOI and the Mission. The three months' extension of the TDD is requested for payment purposes only, as no costs will be incurred after December 31, 1976.

#### C. Korea - Second Feasibility Studies Loan

Subject loan was authorized on November 22, 1971, and the loan agreement was signed on January 20, 1972. Following a small deobligation, the loan amount is \$1,845,000. The 1975 Loan Pipeline Review Team designated subject loan as a Class B loan, with an Asia Bureau Commitment not to seek extension of the TDD beyond December 31, 1976. The Deputy Administrator had earlier approved (on February 12, 1975) an extension of the TDD to December 31, 1976, to permit use of the uncommitted loan funds to finance a feasibility study of the Chungju Multipurpose Dam.

As of October 31, 1976, the loan was fully committed and 84% of loan funds had been disbursed. All loan-financed studies have been completed with the exception of the Chungju study. It was originally expected that the Chungju Study would be completed by November 1976, but problems associated with exploratory geologic work have delayed completion until late December 1976. The contractor (ECI) and USAID/Korea have assured us that all loan-financed services will be completed by the existing TDD. However, the Borrower and USAID have requested a three-month extension of the TDD to effect the final contractor payment.

#### D. General

The requested TDD extensions are consistent with new AID policy regarding project completion, whereby (per Handbook 3) completion is defined as the date on which all U.S. - financed goods have been delivered and/or services have been performed under the Project Agreement. This definition applies accrual expenditure concepts and permits loan disbursement for invoices within a reasonable period following the project completion date as long as the goods/services were delivered prior to that date. Accordingly, we believe the requested TDD extensions are acceptable.

**Recommendation:** We recommend that you approve extension of the TDD's for the three subject loans from December 31, 1976, to March 31, 1977, solely for the purpose of effecting payments for goods and services delivered by the present TDD.

/s/ JEM

APPROVED \_\_\_\_\_

DISAPPROVED \_\_\_\_\_

DATE DEC 21 1976

**Attachments:**

- A - Memo to Deputy Administrator, 2/24/76
- B - Memo to Deputy Administrator, 11/7/75

**Clearance:**

- SER/ENG:JSloan	(Draft)	date 11/23/76
- PPC/DPRE:EHogan	(Draft)	date 11/23/76
- PPC/NC:RGriffel	(Draft)	date 11/29/76
- SER/FA:RBlacka	(Draft)	date 12/2/76
- GC:GJorgan	2/24	date 12/17
- AA/PPC:PBirnbaum	10	date 12/22
- A/DAA/ASIA:DCohen	10	date 12/14/76
- ASIA/PD:ARLove		date
- ASIA/PD:JRMcCabe	(Draft)	
- ASIA/TR:TCClark	(Draft)	
- ASIA/EAA:MHager	(Draft)	
- ASIA/EAA/I:BDupuis	(Draft)	
- ASIA/EAA/K:REllert-Beck	(Draft)	
- ASIA/DP:WLefes	(Draft)	
- GC/ASIA:HMorris	(Draft)	

*RSQueener*

Drafted by: ASIA/PD:RSQueener:im;jk:12/13/76:Ext. 59006

4890697-③

AID 1020-25 (10-70)

PD-AAD-472-F1 REPORT U-444

PAGE 1

## PROJECT APPRAISAL REPORT (PAR) (TERMINAL REPORT)

1. PROJECT NO. <b>489-21-995-697</b> ✓	2. PAR FOR PERIOD <b>1/72</b> TO <b>1/77</b>	3. COUNTRY <b>Korea</b>	4. PAR SERIAL NO. <b>77-8</b>
5. PROJECT TITLE			

## 2nd Feasibility Studies

6. PROJECT DURATION: Began FY <b>72</b> Ends FY <b>77</b>	7. DATE LATEST PIP <b>Nov. 3, 1971</b>	8. DATE LATEST PIP	9. DATE PRIOR PAR
10. U.S. FUNDING	a. Cumulative Obligation Thru Prior FY: <b>1,846,000</b>	b. Current FY Estimated Budget: \$	c. Estimated Budget to completion After Current FY: \$

## 11. KEY ACTION AGENTS (Contractor, Participating Agency or Voluntary Agency)

a. NAME <b>Engineering Consultants, Inc.</b>	b. CONTRACT, PASA OR VOL. AG. NO. <b>Loan 489-H-083</b>

## I. NEW ACTIONS PROPOSED AND REQUESTED AS A RESULT OF THIS EVALUATION

A. ACTION (X)			B. LIST OF ACTIONS	C. PROPOSED ACTION COMPLETION DATE
USAID	AID/W	HOST		
			<p>The attached report substitutes for a regular PAR covering the period from 1/72 to 1/77 inclusive.</p> <p>No actions are proposed.</p>	

## D. REPLANNING REQUIRES

REVISED OR NEW:

☐ PROP ☐ PIP ☐ PRO AG ☐ PIO/T ☐ PIO/C ☐ PIO/P

## E. DATE OF MISSION REVIEW

PROJECT MANAGER: TYPED NAME, SIGNED INITIALS AND DATE

James R. Callaway

1/26/77

MISSION DIRECTOR: TYPED NAME, SIGNED INITIALS AND DATE

Dennis P. Barrett

1/27/77

489-21-995-697

1/72

1/77

(TERMINAL REPORT)

Korea

77-8

## 2nd Feasibility Studies

A. PROJECT

DURATION

72

77

Nov. 3, 1971

CAP

MEX

TO: U.S.

PERSON

The Agency

1,846,000

Budget

EST. PIP

C. DATE PRIOR PAR

Estimated Budget to completion  
After Current FY: 5

Agency Agency

CONTRACT, PAR OR VOL. AG. NO.

Engineering Consultants, Inc.

Loan 489-H-083

C. PROPOSED ACTION  
COMPLETION DATE

The attached report substitutes for a regular  
PAR covering the period from 1/72 to 1/77  
inclusive.

No actions are proposed.

5. REPLANNING REQUIRED

REVISION ON NEW

1. FOR

2. PIP

3. PRELIM

4. FINAL

5. OTHER

6. PIP

2. DATE OF MISSION REVIEW

James R. Callaway

1/26/77

Dennis P. Barrett

1/27/77

489-21-995-697

Based upon Area Auditor General East Asia, Agency for International Development, Audit Report No. 9-489-76-35 dated September 30, 1976.

Second Feasibility Studies Loan No. 489-H-083

Three of the four studies financed under this \$1.95 million loan have been completed and accepted by the ROKG and USAID. Work on the final study is expected to be completed, though not necessarily approved nor fully paid for, by the loan terminal disbursement date (TDD) of December 31, 1976.

One of the finalized studies, completed in 1975 at a cost of about \$749,000 under two AID loans, has not yet been utilized in active developmental projects. This essentially long range electric power sectoral study has provided the ROKG with useful knowledge. It may well be many years before it is possible to measure or evaluate the impact of the study on Korean economic goals.

The Second Feasibility Studies Loan No. 489-H-083 was signed January 20, 1972 to provide up to \$2 million to assist in financing the foreign exchange costs of services, equipment, and materials necessary for the performance of economic and technical prefeasibility and feasibility studies, sectoral studies, market studies and other capital project related services in Korea. All studies were to be mutually agreed upon in advance by the ROKG (borrower) and AID. The original terminal disbursement date (TDD) was 3 years from the signing of the loan, or January 19, 1975.

The amount of the loan was subsequently reduced to \$1.95 million on June 4, 1976 and a pending deobligation of \$103,171 will further reduce the loan to the committed amount of \$1.8 million. Disbursements as of June 30, 1976 totaled \$1.2 million.

This loan was previously reviewed in November 1974 - Audit Report No. 9-489-75-45 in conjunction with Loan No. 489-H-030 which funded the First Feasibility Studies. The prior report indicated that as of July 31, 1974, only \$737,000 of the \$2 million loan had been committed. There was concern that the uncommitted funds might not be utilized promptly. Under the predecessor First Feasibility Studies Loan, the slow drawdown of funds resulted in a 9-year loan implementation period.

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No. 489  
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implementation

The implementation status of Loan No. 489-II-083 at July 31, 1974 was:

<u>Studies Authorized</u>	<u>Amount</u>	<u>Status</u>
Tourism Development	\$435,000 <sup>1/</sup>	Approved by AID 5/74 under review by ROKG
Development Study of Nuclear Energy Power - Carryover from First Feasibility Studies covering National Electric Power Development	\$302,000 <sup>1/</sup>	In process

<sup>1/</sup> Subsequently revised to \$433,684 and \$262,561, respectively.

During the current review period the following studies were authorized, fully committing the revised loan balance:

<u>Studies</u>	<u>Commitment</u>	<u>Date Authorized</u>
National Standards and Testing System	\$398,192	10/27/74
Chungju Multipurpose Project	\$751,500	11/24/75

Current Project Status. Three of the four studies have been completed and accepted. Two were long-range sectoral studies which are or will be used for future planning purposes. AID is loan-funding the project resulting from the third study. The completed and incomplete studies are discussed below:

Tourism Development. On April 30, 1973, the ROKG signed a contract with the Boeing Company of Seattle, Washington, for consulting services to develop a master plan for a viable national and international tourist industry in Korea. The study surveyed and identified visitor destination points with the greatest attraction potential. The areas covered included the cities of Seoul and Pusan, and Kyongui, Cheju Island and other selected areas.



The study costing \$413,584 was completed on February 27, 1974, and accepted by ROKG on May 13, 1974. The Mission considered the report excellent and approved the final payment to the contractor on May 13, 1974.

EPB and the Ministry of Transportation (MOT) inform that the completed study is being utilized extensively in assigning priorities for development and promotion of tourism in Korea.

Development Study of Nuclear Energy Power. This study is the final segment to the National Electric Power Development study implemented under the First Feasibility Studies loan. The purpose of the Nuclear Power study was to develop requirements for the Atomic Energy Bureau of ROKG for the control, management, construction, fuel supply and operation of nuclear power facilities, and disposal of nuclear waste from nuclear power stations.

The original contract with Harza Overseas Engineering Company of Chicago, Illinois was increased to \$749,487 on April 4, 1974 to provide \$136,241 for these additional services. The combined National Electric Development report financed under two AID loans was completed and accepted by ROKG on March 15, 1975. The Mission approved final payment to the contractor on March 21, 1975.

According to project files, the Nuclear Energy Power Study contained some information which was already obsolete at the time of completion, due to rapid changes in the field. In addition, while not available in Korea, some data provided could have been obtained from many sources in the United States.

Officials of EPB inform that the National Electric Power Development Sectoral Studies will be utilized for long-range planning purposes. Accordingly, it is not evident at this time what specific impact the loan-financed study may have on Korean development.

National Standards and Testing System. The ROKG signed a contract on October 10, 1974 with General Electric Company Tempo (GE/Tempo) of Santa Barbara, California for consulting services for assistance in making recommendations on ways to strengthen the Korean National Standards System. The study was to be accomplished through the design and plan

for implementation of a project with the scale of an institute, including research facilities, staffing, research laboratory equipment, and other accessorial support facilities.

The study costing \$398,473 was completed on August 25, 1975 and accepted by the ROKG on December 17, 1975. The Mission approved the report for final payment on December 18, 1975.

Based on the GE/Tempo studies, AID agreed to finance the development of a National Metrology Standards System through the creation of the Korea Standards Research Institute. On September 19, 1975, the ROKG signed AID Loan Agreement No. 489-W-093 in the amount of \$5 million.

Chungju Multipurpose Project. The objective of this comprehensive feasibility study was an overall review of the Chungju Province for basin-wide development. The work was to be accomplished in three phases and completed by December 31, 1976:

- 1) Phase I - Basin study including a review of existing information, verifying the need and priority of the project, and to present the development scheme of the Chungju Project in coordination with other projects being considered for development by the ROKG.

- 2) Phase II - Feasibility study to evaluate the technical, economical, sociological and environmental soundness of the project; and, a financial analysis and payment study.

- 3) Phase III - Tender design, preparation of specifications and tender documents.

The Industrial Sites and Water Resources Development Corporation (ISWACO), 100 percent ROKG-owned, signed a contract for \$750,000 on November 13, 1975 with Engineering Consultants, Inc. (ECI) of Denver, Colorado to perform the studies. The study is on schedule as follows:

Phase I - Completed during February 1976 and submitted to the ROKG during March 1976;

Phase II - Completed and submitted to the ROKG during August 1976. The ECI is waiting for comments and suggestions for proposed changes; and

Phase III - Started during June 1976 and will be completed by November 30, 1976. After submission, it is expected there will be a period of three to four weeks until ROKG accepts the report and approves final payment.

Concurrent with its approval to finance this study, the USAID extended the loan TDD from September 6, 1975 to December 31, 1976. Both AID/W and the USAID were concerned, however, that the Phase III preparation of the bidder design and specifications could not be completed within this timeframe. The ROKG felt strongly, however, that this final phase was necessary to prevent a substantial delay in obtaining necessary financing and proceeding with construction of the Chungju dam project. Accordingly, Phase III was retained in the scope of the feasibility study. The contract as approved by the USAID contained the provision that, "The services shall be completed to permit payment by no later than December 31, 1976 except as otherwise approved."

Subsequent to the date of the above audit report it became apparent that the contractor, ECI, would not be able to complete Phase III, Development of Tender Documents and Specifications, before the Terminal Disbursement Date, December 31, 1976. Underlying causes for slippage in the work schedule were due to delays in decision making processes outside the control of the contractor, changes and additions to the scope of work, and additional requirements for economic and backwater studies. Time required for final completion of Phase III is estimated at 30 to 60 days, plus an additional 30 days for processing and payment of invoices. In December 1976 the Mission recommended a three month extension of the TDD for payment purposes only, AID/W approval was received December 24. As of the end of January 1977 all Phase III work is reported complete except actual delivery of technical specifications. The last section of these is scheduled to be mailed during the first week of February.

UNITED STATES GOVERNMENT

*Memorandum*

UNCLASSIFIED

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5p.

TO : Mr. Dennis P. Barrett, AID/REP

DATE: May 16, 1977

FROM : J. Callaway, REO; E. Gales, DLD

SUBJECT: Loan Completion Review, AID Loan No. 489-H-083  
(2nd Feasibility Studies Loan)

REF: AID Manual Order 1264.1, Section IV - "Loan Completion Review and Report"

I. The Loan

The loan agreement dated January 20, 1972 between the Government of the Republic of Korea and the Government of the United States of America, acting through the Agency for International Development, made available an amount up to \$2 million for the performance of feasibility studies and other capital project related services in Korea. The amount of the loan was subsequently reduced to \$1,845,817. Actual disbursement amounted to \$1,845,683 with the balance of \$133.75 to be deobligated. Terms to the borrower are forty (40) years from the date of first disbursement at an interest rate of two percent (2%) per annum for the first ten (10) years grace period and three percent (3%) thereafter. Repayment is to be made in U.S. currency. The original terminal disbursement date (TDD) was 3 years from the signing of the loan, or January 19, 1975. The TDD was subsequently extended to 3/31/77.

II. Purpose of the Loan

The purpose of the loan was to finance the foreign exchange costs of goods and services required for the performance of prefeasibility, feasibility, sectoral, market studies and consulting services directly related to capital projects in Korea. All studies were mutually agreed upon by the borrower and AID in advance of implementation.

Studies actually completed and accepted under the loan include a Tourism Development Study, a Development Study of Nuclear Energy Power (a carryover from First Feasibility Studies), an Industrial Standards Study, and a Feasibility Study for Chungju Multipurpose Dam.

UNCLASSIFIED

A. Tourism Development. On April 30, 1973, the ROKG signed a contract with the Boeing Company of Seattle, Washington, for consulting services to develop a master plan for a viable national and international tourist industry in Korea. The study surveyed and identified visitor destination points with the greatest attraction potential. The areas covered included the cities of Seoul and Pusan, and Kyongui, Cheju Island and other selected areas.

The study costing \$433,683 was completed on February 27, 1974, and accepted by ROKG on May 13, 1974. The Mission considered the report excellent and approved the final payment to the contractor on May 18, 1974.

We were informed by the EPB and the Ministry of Transportation (MOT) that the completed study is being utilized extensively in assigning priorities for development and promotion of tourism in Korea.

B. Development Study of Nuclear Energy Power. This study is the final segment to the National Electric Power Development study implemented under the First Feasibility Studies loan. The purpose of the Nuclear Power study was to develop requirements for the Atomic Energy Bureau of ROKG for the control, management, construction, fuel supply and operation of nuclear power facilities, and disposal of nuclear waste from nuclear power stations.

The original contract under the prior loan with Harza Overseas Engineering Company of Chicago, Illinois was increased \$262,561 on April 4, 1974 under this loan. The combined National Electric Development report financed under two AID loans was completed and accepted by ROKG on March 15, 1975. The Mission approved final payment to the contractor on March 21, 1975.

According to project files, the Nuclear Energy Power Study contained some information which was already obsolete at the time of completion, due to rapid changes in the field. In addition, while not available in Korea, some data provided could have been obtained from many sources in the United States.

Officials of EPB informed us the National Electric Power Development Sectoral Studies will be utilized for long-range planning purposes. Accordingly, it is not evident at this time what specific impact the loan-financed study may have on Korean development. This essentially long range electric power sectoral study has provided the ROKG with useful knowledge. It may well be many years before it is possible to measure or evaluate the impact of the study on Korean economic goals.

C. National Standards and Testing System. The ROKG signed a contract on October 10, 1974 with General Electric Company Tempo (GE/Tempo) of Santa Barbara, California for consulting services for assistance in making recommendations on ways to strengthen the Korean National Standards System. The study was to be accomplished through the design and plan for implementation of a project with the scale of an institute, including research facilities, staffing, research laboratory equipment, and other accessorial support facilities.

The study costing \$398,073 was completed on August 25, 1975 and accepted by the ROKG on December 17, 1975. The Mission approved the report for final payment on December 18, 1975.

Based on the GE/Tempo studies, AID agreed to finance the development of a National Metrology Standards System through the creation of the Korea Standards Research Institute (K-SRI). On September 19, 1975, the ROKG signed AID Loan Agreement No. 489-W-093 in the amount of \$5 million. The K-SRI project is well underway with trainees studying at the U.S. National Bureau of Standards, construction of facilities progressing at Dae Duk Science town, staff under recruitment, and commodities ordered. Inauguration of the working facility is planned to be held in May 1978.

D. Chungju Multipurpose Project. The objective of this comprehensive feasibility study was an overall review of the Chungju Province for basin-wide development. The work was accomplished in three phases:

- 1) Phase I - Basin study including a review of existing information, verifying the need and priority of the project, and to present the development scheme of the Chungju Project in coordination with other projects being considered for development by the ROKG.

- 2) Phase II - Feasibility Study to evaluate the technical, economical, sociological and environmental soundness of the project; and, a financial analysis and payment study.

- 3) Phase III - Tender design, preparation of specifications and tender documents.

The Industrial Sites and Water Resources Development Corporation (ISWACO), 100 percent ROKG-owned, signed a contract for \$751,500 on November 13, 1975 with Engineering Consultants, Inc. (ECI) of Denver, Colorado to perform the studies.

Phase I - Completed during February 1976 and submitted to the ROKG during March 1976;

Phase II - Completed and submitted to the ROKG during August 1976.

Phase III - Started during June 1976 and the final documents were delivered to ISWACO in March 1977. The ROKG accepted the report and approved final payment. The Loan TDD was extended to March 31, 1977 on a no-additional-dollar cost basis to permit the ROKG to pay for ECI's local currency expenditures after December 31, 1976.

On the basis of the ECI-prepared feasibility study, the ROKG is now proceeding with plans to construct the Chungju Multipurpose Dam.

#### Review of Existing Covenants

The loan agreement contains the following warranties, agreements, and covenants; all of which are deemed to have been met:

- A. Utilization of Goods and Services.
- B. Information and Marking.
- C. Notice of Material Developments.
- D. Inspections.
- E. Taxes and Duties.
- F. Commissions, Fees, and Other Payments.
- G. Renegotiation of Terms.
- H. Maintenance and Audit of Records.
- I. Reports.
- J. Procurement Source and Origin.
- K. Date of Procurement.
- L. Port Charges.
- M. Small Business Notification.
- N. Ocean Shipment.
- O. Marine Insurance.
- P. Employment of Contract Personnel.
- Q. Plans, Specifications, and Contracts.

#### IV. Review of Reporting Requirements

There is no requirement for reports beyond those already received.

#### V. Residual Monitoring Responsibilities

It is recommended that active AID monitoring relative to this loan be terminated. This recommendation is based on the fact that the purpose of the loan has been achieved and all covenants have been fulfilled.

#### VI. Findings and Recommendations

##### A. Findings

The Loan Committee believes the following findings represent an accurate status of the loan:

1. The objectives of the loan have been satisfied and the studies have been satisfactorily completed.

2. No covenants are being violated, and no violations are anticipated in the foreseeable future.

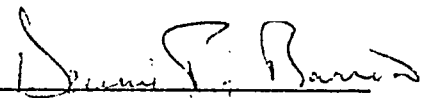
3. Interest and principal payments are current.

4. There are no outstanding audit recommendations.

B. Recommendations

Authority to implement this loan is delegated to the AID/Representative, USAID/Korea. Under the authority delegated, the Loan Committee recommends that all active monitoring of this Loan be terminated in accordance with the conditions outlined in Section V, Residual Monitoring Responsibilities above. The Loan Committee further recommends that this memorandum be accepted as the Loan Completion Report (as required by M.O. 1264.1), and that all official files related to this loan be transferred to AID, Washington.

Approved: \_\_\_\_\_

  
Dennis P. Barrett  
AID/Representative

Disapproved: \_\_\_\_\_

Date: \_\_\_\_\_

May 18, 1977

Clearances:

PRM: J. Miller \_\_\_\_\_

CONT: L. Wight \_\_\_\_\_